

STATE OF CALIFORNIA
FINANCE LETTER - COVER SHEET
FOR FISCAL YEAR 2005/06
DF-46 (REV 03/03)

Department of Finance
915 L Street
Sacramento, CA 95814
IMS Mail Code: A-15

| | | | |
|--------------------|--------------------|------------------|-----------------------------------|
| FL # 1 | PRIORITY NO | ORG CODE 1730 | DEPARTMENT Franchise Tax Board |
| PROGRAM Various | ELEMENT Various | COMPONENT | |

TITLE OF PROPOSED CHANGE:

Phase III - Occupancy Costs

SUMMARY OF PROPOSED CHANGE:

Provide funding in the amount of \$7.6 million for modular furniture components and for contracting with vendors to disassemble/clean/reassemble existing modular furniture components for reuse in the new State Office Buildings (Phase III). This request also reflects a reduction in lease savings provided in BCP #5 for FY 2005/06 due to delays in the initial moves to Phase III.

| | | |
|--|-------------------------------------|---|
| REQUIRES LEGISLATION <input type="checkbox"/> YES <input checked="" type="checkbox"/> NO | CODE SECTION(S) TO BE AMENDED/ADDED | BUDGET IMPACT-PROVIDE LIST AND MARK IF APPLICABLE <input checked="" type="checkbox"/> ONE-TIME COST <input type="checkbox"/> FULL-YEAR COSTS <input checked="" type="checkbox"/> FACILITIES/CAPITAL COSTS <input type="checkbox"/> FUTURE SAVINGS <input type="checkbox"/> REVENUE |
|--|-------------------------------------|---|

| | | | |
|----------------------|------|------------------|------|
| PREPARED BY: | DATE | REVIEWED BY: | DATE |
| PROGRAM APPROVAL: | | | |
| DEPARTMENT DIRECTOR: | | AGENCY USE ONLY: | DATE |

IF PROPOSAL AFFECTS ANOTHER DEPARTMENT, DOES OTHER DEPARTMENT CONCUR WITH PROPOSAL? N/A

☐ YES
☐ NO

ATTACH COMMENTS OF AFFECTED DEPARTMENT SIGNED AND DATED BY THE DEPARTMENT DIRECTOR OR DESIGNEE.

FOR INFORMATION TECHNOLOGY REQUESTS, SPECIFY THE DATE SPECIAL PROJECT REPORT (SPR) OR FEASIBILITY STUDY REPORT (FSR) WAS APPROVED BY THE DEPARTMENT OF FINANCE.

DATE PROJECT # FSR ☐ OR SPR ☐

DOF ANALYST USE
(ADDITIONAL REVIEW)

CAPITAL OUTLAY ☐ TIRU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐

FL # 1 DATE 2/8/2005 Title of Proposed Change:
 Phase III - Occupancy Costs
 PROGRAM ELEMENT COMPONENT
 Various Various

| | | <u>Personnel Years</u> | | <u>Current Year</u> | <u>Budget Year</u> |
|---|--|------------------------|-----------|---------------------|--------------------|
| | | <u>CY</u> | <u>BY</u> | | |
| Total Salaries & Wages <u>a/</u> | | <u>.0</u> | <u>.0</u> | \$ 0 | \$ 0 |
| Salary Savings | | <u>.0</u> | <u>.0</u> | \$ 0 | \$ 0 |
| Net Total Salaries and Wages | | <u>.0</u> | <u>.0</u> | \$ 0 | \$ 0 |
| Staff Benefits <u>b/</u> | | | | \$ 0 | \$ 0 |
| Total Personal Services | | | | \$ 0 | \$ 0 |
| Operating Expenses and Equipment | | | | | |
| General Expenses /1 | | | | \$ 0 | \$ 6,335,000 |
| Printing | | | | 0 | 0 |
| Communications /2 | | | | 0 | 52,000 |
| Postage | | | | 0 | 0 |
| Travel-In-State | | | | 0 | 0 |
| Travel Out-of-State | | | | 0 | 0 |
| Training | | | | 0 | 0 |
| Facilities Operations /3 | | | | 0 | 1,226,000 |
| Utilities | | | | 0 | 0 |
| Cons & Prof Svs - Interdept'l | | | | 0 | 0 |
| Cons & Prof Svs - External | | | | 0 | 0 |
| Consolidated Data Center | | | | 0 | 0 |
| California Health and Human Services Agency Data Center | | | | () | () |
| Stephen P. Teale Data Center | | | | () | () |
| Data Processing | | | | 0 | 0 |
| Equipment | | | | 0 | 0 |
| Other Items of Exp (Specify Below) | | | | 0 | 0 |
| Total Operating Expense & Equipment | | | | \$ 0 | \$ 7,613,000 |

a/ Itemized detail on Page II-3 by classification as in Salaries and Wages Supplement.

b/ Detail provided on following pages.

/1 General Expense includes \$6,335,000 for modular furniture components (\$3,556,500), and drawing, transportation, disassembly/cleaning/reassembly (\$2,778,600).

/2 Reduce the amount of telecommunication cost savings originally reported in BCP #5 for FY 2005/06.

/3 Reduce the amount of leased space cost savings reported in BCP #5 for FY2005/06.

d/ Special Items of expense must be titled. Please refer to the Uniform Codes Manual for a list of the standardized Special Items of expense objects which may be used.

FRANCHISE TAX BOARD
Fiscal Year 2005/06

Finance Letter

FL No. 1

Phase III Occupancy Costs

Date: February 8, 2005

A. Nature of Request

The Franchise Tax Board (FTB) is requesting funding in the amount of \$7.6 million to facilitate the final relocation of staff and operations to the new State Office Project (also referred to as the Phase III Project), including the renovation and occupancy of its existing Butterfield office buildings. The following FY 2005/06 expenditures and projected lease savings are based on the current Phase III construction schedule and is the subject of this request:

- \$ 6,335,000 - Haworth Modular Systems Furniture Refurbishment & Augmentation
- \$ 1,278,000 – Reduction of Facility Lease Savings Identified in FY 05/06 BCP #5

FTB has contracted with a consultant to conduct an analysis of the modular furniture inventory and associated costs, and a comprehensive review of the acquisition strategy and procurement plans by the department's staff. Upon completion of this analysis, the department will be refining the costs of this request. This process will be completed in late February.

B. Background/History

Senate Bill 1589 (Chapter 328/1998) authorized the Department of General Services to use lease revenue funds for the acquisition of land, design, and construction of the State Office Project (Phase III), which includes construction of a central plant, warehouse, Town Center, new office buildings and renovation of FTB's existing Butterfield office and warehouse facilities.

The department will successfully relocate staff and operations from approximately 463,000 square feet of leased facilities currently situated within the Sacramento Highway 50 Corridor to the expanded Butterfield site. The consolidation of staff at the FTB campus is also consistent with the provisions of Executive Order D-46-01 directing agencies to utilize state-owned facilities when accommodating future space requirements. Furnishings and equipment required for FTB's occupancy that will impact the department's baseline support budget in FY 2005/06 are not funded by the State Office Project, and is the subject of this funding request:

1. Haworth Systems Furnishings - \$6.3 Million Multi-Year Contract for Disassembly/Cleaning/Installation Services

Consolidation of FTB's operations at the expanded Butterfield Campus will be accomplished in multiple stages pursuant to the State Office Project construction schedule. FTB has committed to re-using its existing modular systems furniture (modular) to the maximum extent possible for the balance of the new office occupancies and renovation moves. The reuse of modular compared to the purchase of new Haworth modular represents a potential savings of approximately \$1 million in FY 2005/06.

Because the furnishings vacated during a prior move phase will not fully meet the design requirements of the subsequent installation, new modular components will need to be purchased in order to augment the inventory on hand. Based on FTB's schematic space plans, the approximate total cost of new components is estimated at \$3.56 million.

Integral to the reuse is the procurement of a multiyear contract for the professional services of a vendor to disassemble, transport, stage, clean and install the modular in a timely manner. FTB does not have staff that is factory trained or authorized to provide tear-down and assembly services or facilitate the efficient transfer of the appropriate useable product to and from FTB's warehouses. The projected cost associated with the hiring of a furnishings contractor to disassemble, inventory and reinstall FTB's modular relative to the final occupancy of the Phase III buildings is estimated at \$1.08 million. An additional \$1.69 million is needed for the renovation of Phase I and II. This presents a projected total need of \$6.33 million in FY2005/06 specific to the modular re-use contract and new product costs.

FTB has procured a furnishings contractor to conduct an audit of FTB's space plan drawings and perform a site verification of the affected areas in addition to a product comparison of existing product versus the new space plans. This vendor will prepare and submit to FTB by late February 2005 an updated estimate reflecting the actual labor and new product costs. Such costs will supersede the aforementioned planning estimates and will be incorporated as a revision to FTB's Finance Letter request for FY 2005/06.

2. Reduction of Lease Savings identified in FY2005/06 BCP #5: \$1.2 million for lease savings and \$52,000 for telecommunication savings.

The FTB will be the major tenant of the new State Office and Warehouse Facilities at Butterfield Way. This relocation has department-wide implications in that all segments of the FTB organization will be affected by the multi-year phased occupancy of the State Office Project. Following occupancy of the Phase III Project, FTB will have successfully relocated staff and operations from approximately 463,000 square feet of leased facilities currently located within the Sacramento Highway 50 corridor to the new Phase III office buildings and renovated facilities.

The closeout of FTB's leased space will be accomplished in multiple stages pursuant to the State Office Project construction schedule. Recent revisions to the construction timeline required FTB to recalibrate its relocation and lease termination schedules. FTB's budget proposal (FTB BCP #5) submitted to DOF in November 2004 requested a one-time negative adjustment of -\$1.635 million. Due to the unforeseen occupancy delays, FTB is now requesting to reduce the proposed savings by \$1.28 million for the leases (from savings of \$5.94 million down to \$4.72 million) and \$52,000 for telecommunication and data infrastructure (from savings of \$256,000 down to \$204,000) which will allow FTB to align its operating budget for FY 2005/06 with the updated construction timeline and resulting lease termination schedule.

C. State Level Consideration

In accordance with Executive Order D-16-00, the goal of the State Office Project is to construct, renovate, operate and maintain facilities that are models of energy, water and materials efficiently while providing a healthy, productive indoor and outdoor environment for staff. This project offers long-term benefits to the State of California.

The basis of this request centers on the department's need to adequately maintain and efficiently utilize the programmed facilities. This investment will garner the long-term benefits of energy cost savings, delivery of efficient state services, protection of investment of state funds, and reduction of rental and operating costs. The continued leasing of space to meet FTB future program requirements conflicts with the provisions of Executive Order D-46-01 directing agencies to utilize state-owned facilities when accommodating future space requirements.

D. Facility/Capital Outlay Consideration

Denial of this proposal will prohibit the re-use of FTB's existing modular inventories and conflict with sustainable building design practices. Delays in the modular installation activities may also obligate FTB to incur double rental costs of \$4.92 million in F Y 2005/06 for the continued leasing of office space. All of these consequences deteriorate the infrastructure established by the State Office Project investment.

E. Justification

The consolidation of FTB staff with the State Office Project supports FTB's 1995 and 1998 Master Plan Update, and will allow for improved communications and efficiencies for FTB pursuant to FTB Strategic Goal #3 to build a strong organization. Strategic Goal #4 to deliver efficient business results is dependent on suitable facilities for staff. This funding request further supports this same goal as FTB resources are allocated based on the overall long-term benefits to our customers, our organization, and California as a whole.

F. Analysis of All Feasible Alternatives:

Alternative #1 – Approve \$7.6 million which consists of \$6.3 million for FTB’s Haworth systems furnishings re-use costs and the reduction of \$1.3 million from leases and telecommunication cost savings originally reported in BCP #5.

This alternative recommends approval of the requisite funding to cover the costs associated with the final phases of the new building occupancies and renovation moves relative to the re-use of FTB existing modular furniture inventories and relocation costs. Approval of the amount requested above will facilitate the timely procurement of contracted services and new components needed for the modular installation phases as well as ensure the scheduled termination dates of FTB’s leased space are sustained. The funding will also provide FTB with adequate resources to pay actual lease costs in FY 2005/06 given the updated move schedule.

Alternative #2 – Do not approve funding request.

If this funding request is not approved, the FTB will be unable to consolidate to the Butterfield site in a timely manner. Delays in occupying the facilities in FY 2005/06 will adversely affect FTB’s operations and ability to sustain service levels. FTB would also incur double rental costs consisting of an undetermined debt service amount for the Phase III buildings along with lease and other related costs totaling an estimated \$4.92 million in FY 2005/06.

G. Time Table

Authorize use of support funding effective July 1, 2005.

H. Recommendation

Alternative #1 is recommended. This enables the department to relocate in a timely manner and operate efficiently without impacting its ability to provide the current level of service. If Alternative #1 were not approved, FTB would incur double rental costs totaling an estimated \$4.92 million in FY 2005/06.